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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000157

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DOE FOR GPERSON, CHAYLOCK

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [NI](#)

SUBJECT: NIGERIA: GAS PRICE AGREED TO BUT POLICY CONFUSION
RAMPANT

REF: A. LAGOS 122

[1](#)B. 07LAGOS 645

Classified By: Consul General Donna Blair for Reasons 1.4 (B,D)

[1](#)1. (SBU) Summary: Negotiations between upstream gas producers and the Government of Nigeria have established a price for domestic natural gas of USD 0.50 per thousand standard cubic feet. A USAID contractor said Nigeria's Minister of State for Energy (Gas) Emmanuel Odusina had balked at supplying more than a token amount of natural gas to the West African Gas Pipeline citing domestic priorities, but oil company contacts are confident the pipeline will receive all the gas it is currently capable of transporting. In a meeting with "stakeholders", the chairman of the Senate Committee on Gas admitted he had not seen Nigeria's master plan for developing its gas resources. Indigenous industry representatives are growing increasingly impatient with the lack of certainty in the natural gas policy. There is plenty of gas available, but Nigeria must come to grips with the nature of natural gas investment. End Summary.

Chevron: Government Agrees on Gas Price...

[1](#)2. (SBU) Chevron Nigeria's Gas Policy Manager told Econoff and a visiting Department of Energy official that the GON and upstream gas producers have agreed to a domestic gas price of USD 0.50 per thousand standard cubic feet (mscf). The price is the result of lengthy negotiations between the oil companies and the GON, spurred on by Nigeria's recent announcement of a new natural gas policy and regulation (Ref A). The Chevron executive also shared a Nigerian National Petroleum Corporation document that appears to be the outcome of those negotiations. In it, USD 0.50 is defined as a price to be used during the "emergency period." No details are given on the definition of emergency period or how long it will last. Following the emergency period, gas pricing is expected to transition to "export pricing parity", a price linked to the previous year's export price agreements through a complex pricing formula. (Note: Ref A reports that oil companies were seeking to secure a workable current natural gas price while seeking assurances that the GON would transition to market-based pricing in the future. The document shows the companies were at least partially

successful, although the timeframe for implementation was notably vague. End Note.)

...But Issues Conflicting Demands for Gas Supply

13. (SBU) On the subject of mandatory domestic gas supply obligations, the Chevron manager said that shortly before coming to terms with the GON, Chevron had received two letters within two days, one from the Minister of State for Energy (Gas) and one from the Department of Petroleum Resources, detailing the amount of gas Chevron was expected to supply to meet domestic Nigerian needs. The Minister's letter required Chevron to supply 135 million standard cubic feet per day, the amount Chevron already has under contract for domestic consumers. The Department of Petroleum Resources however, demanded Chevron supply 351 million standard cubic feet per day or face fines of USD 3.50 per mscf not supplied plus gas flare penalties of USD 3.50 per mscf. Chevron will not have that amount of gas available until next year, but even if it did, the pipeline connecting Chevron's gas gathering facility at Escravos to the Nigerian Gas Company hub in Warri is limited to 300 million standard cubic feet per day. Additional throughput capacity is planned, but not expected to be completed before 2012. (Note: The Department of Petroleum Resources letter gave a compliance date of April 1, 2008. Chevron has not met those demands and has not heard anything further from the Department of Petroleum Resources on the matter. Shell received the same letter and decided to ignore it, assuming it was a negotiating ploy. End Note.)

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Export Gas for West African Gas Pipeline: Wait and See

14. (SBU) A USAID contractor working with the West African Gas Pipeline Company (WAGPco) told Econoff that Nigeria is balking at supplying more than 30 million British thermal units (MMBTU) per day of natural gas to the pipeline. According to the contractor, the pipeline, which has completed pre-commissioning checks, is capable of transmitting 60 MMBTU per day. Delays in installing compressors have reduced the initial capability of the pipeline (Ref B). Engineers had originally estimated the pipeline's uncompressed, free flow capacity at 30 MMBTU per day, but revised their estimate upwards after final tests of the system. When all the compressors are installed, the pipeline will be capable of handling 474 MMBTU per day.

15. (SBU) At a meeting with the Minister of State for Energy (Gas), WAGPco officials requested that the Nigerian Gas Company (NGC), the marketer responsible for supplying gas from the upstream producers, inject 60 MMBTU per day into the pipeline. WAGPco officials pointed out that under the terms of an prior agreement, NGC was supposed to have initially delivered 134 MMBTU. The Minister claimed that Nigerian domestic needs prevented the country from supplying more than 30 MMBTU per day for the indeterminate future, though he promised to review the issue.

16. (SBU) However, a Chevron manager in charge of commercial gas sales told Econoff that Chevron, Shell, WAGPco and NGC would soon sign an agreement to supply "as much uncompressed gas as the pipeline is currently capable of handling". He appeared genuinely surprised at allegations the Minister and NGC were balking at supplying more than 30 MMBTU of natural gas. In a side bar discussion at an industry workshop, Shell's gas manager was similarly confident that such an agreement would soon be reached.

Gas Policy Expertise in National Assembly Weak

17. (SBU) On the legislative front, on April 7, the Chairman of the Senate Gas Committee, Senator Osita Izunaso convened an "Expert Meeting on a Commercial Framework For Effective Gas Utilization". The initial meeting was attended by Econoff, a USAID officer, a gas policy consultant (who in looking for business prospects had agreed to give a presentation on the future of worldwide natural gas demand), the head of the oil industry trade group in Nigeria, a representative from the office of the Vice President, several NGO representatives, a representative from a company claiming to be building small methanol plants, and a mid-level employee of the Nigerian Gas Company. The actual purpose of the meeting was never clear, and after the obligatory accusations that oil companies were dragging their feet on ending gas flaring (followed by equally obligatory denials by the industry representative), the Chairman announced all the attendees would be members of future sub-committees that would be involved in "speed(ing) up the process to arriving at a comprehensive legal framework for gas development and utilization in the country." Interestingly, at the end of the meeting, Senator Izunaso, the Senate Gas Committee Chairman who has been Chair of this Senate Committee since mid-2007, admitted he had not yet seen the Gas Master Plan, Nigeria's all encompassing plan for developing its natural gas industry. Although still a draft document, the plan has been widely circulated inside and out of Nigeria and is not considered a closely held item. (Note: The Gas Master Plan was formally presented to the Senate on April 14. End Note.) After the meeting, the person representing the Vice President's office on gas issues told Econoff he had not seen Nigeria's recently published natural gas policy and regulation and he asked Econoff to provide him a copy.

Industry Frustrated at Gas Policy Confusion

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18. (SBU) Nigerians working in the gas industry expressed their frustrations at the GON's failure to implement a clear gas policy during a forum sponsored by the Nigerian Gas Association. The association, composed mainly of Nigerian engineers and businessmen working for indigenous and international gas companies, hosts a quarterly meeting to discuss various industry issues. On April 17, the association invited a representative from the Office of the Special Advisor to the President on Petroleum Matters to give a presentation on the state of the Gas Master Plan. After the presentation, the assembled audience unloaded on the speaker, with person after person, many of them senior petroleum engineers and executives, rising to complain about the lack of a stable gas policy.

19. (C) Comment: Nigeria, and Nigerian politicians and bureaucrats specifically, simply must come to terms with the fact that natural gas development demands policy and regulatory consistency. The many talented and experienced Nigerians working in the private sector already understand what needs to be done. The Yar'Adua administration reportedly wants legislative approval for its various gas plans and policies; the National Assembly's demonstrably weak knowledge of the issues does not bode well for effective and needed review and subsequent oversight. Nigeria has an estimated 185 trillion cubic feet of proven natural gas reserves and most experts think additional trillions of cubic feet still await discovery. Even assuming half of the proven reserves is needed to sustain oil production, the country has plenty of gas in the ground to meet domestic needs and international obligations for the foreseeable future. Making that gas available depends, however, on getting a policy in place that encourages, rather than discourages, gas production while assuring investors the ground rules won't change on a whim. End Comment.

